2010 REGULAR SESSION
ACTUARIAL NOTE SB 100

Senate Bill 100 SLS 10RS-472 **Original** **Author:** **Senator D. A. "Butch" Gautreaux** **Date: April 6, 2010** **LLA Note SB 100.01** **Organizations Affected:** **Parochial Employees' Retirement System (PERS)** **OR -$86,700,000 APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** David K. Greer **David K. Greer, CPA** **Assistant Legislative Auditor and** **Director of Performance Audit** **and Actuarial Services**

Bill Header: PAROCHIAL EMPLOYEES RETIRMENT: Provides for a five-year final average compensation period.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	($86,700,000)
Total Five Year Fiscal Cost	
Expenditures	($67,437,000)
Revenues	($63,616,000)

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana public retirement systems	($86,700,000)
Other Post Retirement Benefits	$0
Total	($86,680,390)

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Note: it includes the cash flow effect of the benefit changes on the retirement systems, the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	**2011**	**2012**	**2013**	**2014**	**2015**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	(53,000)	(273,000)	(673,000)	(1,155,000)	(1,667,000)	(3,821,000)
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	(11,983,000)	(12,342,000)	(12,712,000)	(13,093,000)	(13,486,000)	(63,616,000)
Annual Total	$ (12,036,000)	$ (12,615,000)	$ (13,385,000)	$ (14,248,000)	$ (15,153,000)	$ (67,437,000)

REVENUES	**2011**	**2012**	**2013**	**2014**	**2015**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	(11,983,000)	(12,342,000)	(12,712,000)	(13,093,000)	(13,486,000)	(63,616,000)
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ (11,983,000)	$ (12,342,000)	$ (12,712,000)	$ (13,093,000)	$ (13,486,000)	$ (63,616,000)

Bill Information:

Current Law

Under current law, overtime earnings credited in the computation of final compensation cannot exceed the average amount of overtime earnings received for the six-year period immediately preceding retirement. Final compensation is defined as the highest consecutive 36 months of earnings subject to a 15% anti-spiking rule.

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Proposed Law

Under SB 100, the overtime earnings limitation is deleted and the definition of final compensation is changed to be the highest consecutive 60 months subject to the same 15% anti-spiking rule. The new definition of final compensation will be phased in over three years beginning for retirements occurring in 2011. The proposed law will be fully implemented for retirements occurring in 2014.

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Implications of the Proposed Changes

When SB 100 is fully implemented in 2014, benefits payable to members who retire from PERS will be about 95% of benefit amounts payable under current law.

<u>**Cost Analysis**</u>

Analysis of Actuarial Costs

Retirement Systems

SB 100 will have the following effect on PERS and participating employers.

1. The benefit payable from PERS to a retiree who retires in 2011 and later years will be smaller than the benefit that would have been payable to him had he retired before 2011.
2. The present value of future benefits payable from PERS will be reduced by about $86,700,000.
3. Employer contribution requirements for Plan A will decrease about 2.1% of pay and for Plan B about 1.5%

These estimates are based on the actuarial assumption and methods used for the December 31, 2008 actuarial valuation for the plan.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 100 for other post retirement benefits.

Analysis of Fiscal Costs

PERS will see a reduction in agency self generated expenditures due to the benefit reduction. Because the benefit reduction will be phased in over 3 years, PERS benefit savings in 2011 will be rather modest, about $53,000. This savings will grow each year as the law becomes fully implemented and as more and more members retire under the new rules. By 2015, annual savings will grow to about $1,667,000.

Employer will have a reduction in local government expenditures from reduced contributions. Contributions will be reduced immediately because the entire future benefit reduction is factored into the formulas used to calculate employer contribution rates. Employer contributions will be $11,983,000 less in 2011 that what they would have been without enactment of SB 100. The savings will grow 3% per year as payrolls increase with inflation.

PERS will see a similar reduction in agency self generated revenues because employers pay less in contributions and PERS income is reduced.

<u>**Dual Referral**</u>

<u>**Senate**</u>

☐ 13.5.1 ≥ $500,000 Annual Fiscal Cost

☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change

<u>**House**</u>

☐ 6.8(F) ≥ $500,000 Annual Fiscal Cost

☐ 6.8(G) ≥ $500,000 Tax or Fee Increase or a Net Fee Decrease